

Message Text

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TRSY (JNIEHUSS) (SU0S)

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S/P:JKAHAN

EUR/RPE:EPREEG

----- 116880

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TO AMEMBASSY BRUSSELS IMMEDIATE

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EXDIS

E.O. 11652: GDS

TAGS:IEA - CIEC

SUBJECT: IEA - MAY 20-21 GOVERNING BOARD DISCUSSION ON
CIEC ENERGY COMMISSION

1. FOR BRUSSELS: PLEASE PASS FOLLOWING MESSAGE TO
DAVIGNON FROM ASSISTANT SECRETARY GREENWALD.
2. WE SEE THE MAY 20-21 GOVERNING BOARD DISCUSSION ON
THE DIALOGUE AS A PARTICULARLY IMPORTANT POINT IN IEA
COORDINATION ON THE WORK OF THE ENERGY COMMISSION. I

THOUGHT, THEREFORE, IT MIGHT BE USEFUL TO GIVE YOU IN

ADVANCE SOME OF OUR PRELIMINARY THOUGHTS ON WHAT THE
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INDUSTRIALIZED COUNTRIES SHOULD TRY TO OBTAIN FROM THE

WORK OF THE COMMISSION IN THE SECOND HALF OF 1976.

3. WE SEE NO NEED TO CHANGE OUR BASIC STRATEGY AND OBJECTIVES SET IN THE GOVERNING BOARD AT THE BEGINNING OF THE DIALOGUE- WE CONTINUE TO BELIEVE THAT IT WOULD NOT BE REALISTIC OR IN OUR INTERESTS TO SEEK ANY FORMAL AGREEMENT ON EITHER PRICE OR SECURITY OF SUPPLY. HOWEVER, ON THE BASIS OF THE WORK OF THE COMMISSION TO DATE, WE DO

BELIEVE THERE WILL BE SIGNIFICANT OPPORTUNITIES IN THE COMMISSION IN THE FINAL HALF OF THE YEAR TO FURTHER OUR BASIC OBJECTIVE OF REDUCING THE RISK OF IRRESPONSIBLE BEHAVIOR BY THE PRODUCERS ON BOTH PRICE AND SUPPLY.

4. AT THE JULY 8-10 MEETING OF SENIOR CIEC OFFICIALS, WE SHOULD BEGIN TO MAP OUT THE WORK PROGRAMS OF THE COMMISSIONS FOR THE FINAL HALF OF THE YEAR. THIS WILL REQUIRE THE IDENTIFICATION OF SPECIFIC AREAS IN WHICH SOME DEGREE OF VISIBLE PROGRESS CAN BE REGISTERED EITHER AS A DIRECT PRODUCT OF CIEC ITSELF OR, IN MOST CASES, IN THE FORM OF REINFORCEMENT AND/OR ORIENTATION BY CIEC OF WORK UNDERWAY ELSEWHERE. IN PREPARATION FOR THE JULY MEETING, WE SHOULD BEGIN NOW IN THE IEA TO IDENTIFY THESE SPECIFIC AREAS ON WHICH WE WANT THE ENERGY COMMISSION TO CONCENTRATE ITS WORK IN THE FINAL HALF OF 1976.

5. AT THIS POINT, WE HAVE TENTATIVELY IDENTIFIED THE FOLLOWING AS TOPICS WE MIGHT WANT TO SEE ON THE COMMISSION'S WORK PROGRAM. THE FIRST THREE OF THESE RELATE DIRECTLY TO THE ENERGY PROBLEMS OF NON-OIL LDCS AND WOULD BE DESIGNED TO SUPPORT OUR STRATEGIC OBJECTIVE OF HIGHLIGHTING AND TRYING TO RESPOND TO THE ENERGY

PROBLEMS OF THESE COUNTRIES AS A WAY OF REINFORCING THEIR PRESSURES ON OPEC AGAINST FURTHER PRICE INCREASES.

(A) INTERNATIONAL ENERGY INSTITUTE: I HOPE THAT ON THE BASIS OF THE PAPERS FROM THE SLT AND THE BARROWS GROUP THE GOVERNING BOARD CAN DECIDE IN PRINCIPLE AT THIS NEXT CONFIDENTIAL

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MEETING TO PUT FORWARD THE IEI CONCEPT IN THE ENERGY

COMMISSION.

(B) FURTHER EXAMINATION OF NON-OIL LDC OIL-RELATED BALANCE OF PAYMENTS PROBLEMS: WE MAY WANT TO CONSIDER EXTENDING THE WORK THE FINANCE COMMISSION HAS ALREADY DONE ON THIS TOPIC. WE GAVE STRESS TO THIS POINT IN

THE PRICE DISCUSSION IN APRIL AND FAILURE TO FOLLOW-UP ON IT IN THE SECOND HALF OF THE YEAR COULD CAUSE SOME DISILLUSIONMENT ON PART OF NON-OIL LDCS. KEEPING THIS TOPIC ON THE WORK PROGRAM WOULD ENABLE US TO CONTINUE TO STRESS THE LDC POINT AS ARGUMENT AGAINST ANY NEW PRICE INCREASE. WE WOULD, OF COURSE, HAVE TO COORDINATE THIS WORK CLOSELY WITH THE FINANCE COMMISSION.

(C) NON-OIL LDC CAPITAL AND TECHNOLOGY NEEDS IN DEVELOPMENT OF INDIGENOUS ENERGY RESOURCES: THIS HAS ALREADY EMERGED AS MAJOR LDC POINT. HERE, WE WOULD ENVISION THAT ELABORATION AND ESTABLISHMENT OF THE INTERNATIONAL RESOURCES BANK WHICH US HAS PROPOSED IN NAIROBI WOULD ENABLE INDUSTRIALIZED COUNTRIES TO SHOW RESPONSIVENESS TO PROBLEMS OF NON-OIL LDCS. IN ADDITION, WE MIGHT ENVISION SOME SORT OF ACTION RECOMMENDATION FROM ENERGY COMMISSION TO IBRD CONCERNING PRIORITY GIVEN ENERGY DEVELOPMENT IN ITS LENDING ACTIVITIES.

6. IN ADDITION TO THESE LDC-ORIENTED INITIATIVES, WE NOW SEE TWO POSSIBLE AREAS FOR FURTHER WORK BY THE COMMISSION WHICH COULD LEAD TO SOME TYPE OF INDUSTRIALIZED COUNTRY-OPEC LINKS:

(A) ONGOING CONSULTATIVE MECHANISM--WE UNDERSTAND THE BARROWS GROUP HAS PREPARED A NEW ANALYTICAL PAPER ON THIS SUBJECT FOR DISCUSSION AT NEXT WEEK'S GOVERNING BOARD MEETING. WE BELIEVE IT WOULD BE DESIRABLE TO OBTAIN FROM THE WORK OF THE ENERGY COMMISSION SOME TYPE OF MECHANISM FOR ONGOING PRODUCER/CONSUMER CONSULTATIONS.

AT A MINIMUM, IT WOULD BE VALUABLE TO CONTINUE TO
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EXCHANGE AND REVIEW SUPPLY AND DEMAND DATA, RESERVE STATISTICS, ETC. IT IS DIFFICULT, HOWEVER, TO DECIDE NOW WHAT MIGHT BE THE MOST EFFECTIVE INSTITUTIONAL ARRANGEMENT FOR SUCH AN ONGOING DATA EXCHANGE AND REVIEW. THE POSSIBILITIES INCLUDE SOME SYSTEM FOR DATA EXCHANGE BETWEEN IEA AND OPEC SECRETARIATS, A CONTINUATION OF THE ENERGY COMMISSION IN ROUGHLY ITS PRESENT FORM, ETC. IT

IS ALSO DIFFICULT TO DETERMINE THE EXTENT TO WHICH ANY ONGOING CONSULTATIONS SHOULD ENCOMPASS SUCH ISSUES AS PRICE. WE ARE CONCERNED THAT AS SOON AS THE ONGOING CONSULTATIVE PROCESS IS GIVEN THE TASK OF REVIEWING ENERGY PRICES, IT WILL (1) BE DIFFICULT TO AVOID AN ELABORATION OF PRICE CRITERIA INCLUDING SOME REFERENCE TO SUCH ISSUES AS MAINTENANCE OF PURCHASING POWER, COSTS

OF ALTERNATIVE SOURCES, ETC.; AND (2) THAT ABSENT ANY
ACTUAL MARKET INFLUENCE ON PRICE, THE CONSUMERS PARTIC-

IPATION IN CONSULTATIONS ON PRICE WOULD EITHER LEAD TO
PERIODIC CONFRONTATION OVER OPEC PRICING DECISIONS OR
TEND TO LEGITIMIZE IN PUBLIC EYES OPEC PRICE MOVES
THROUGH CONSUMER ACQUIESCENCE. FOR THIS REASON, WE WILL
WANT TO PROCEED VERY CAUTIOUSLY ON THE QUESTION OF A
CONSULTATIVE MECHANISM, TAKING ACCOUNT OF OPEC DECISIONS
AT BALI, ETC. IN ANY CASE, WE WOULD NOT SEE THE
CONSULTATIVE MECHANISM AS SOMETHING WHICH THE

INDUSTRIALIZED COUNTRIES SHOULD ALLOW TO BECOME A QUID
PRO QUO FOR STEPS WE MIGHT TAKE IN THE OTHER
COMMISSIONS..

(B) R&D COOPERATION: THE OPEC COUNTRIES IN THE ENERGY
COMMISSION HAVE ALREADY SIGNALLED INTEREST IN FACILI-
TATING THEIR ACCESS TO NEW ENERGY TECHNOLOGY THROUGH
COOPERATION IN R&D WITH THE INDUSTRIALIZED
COUNTRIES. THIS IS AN INTERESTING AREA FOR COOPERA-
TION WHICH WE SHOULD EXPLORE IN THE SECOND HALF OF THE
YEAR. THE IEA'S R&D PROGRAM MAY OFFER A USEFUL
PLATFORM FROM WHICH WE COULD OFFER KEY OPEC COUNTRIES
(AND PERHAPS SOME OF THE LARGER NON-OIL LDCS) PARTI-
CIPATION IN INDIVIDUAL PROJECTS. THIS POTENTIAL
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FINANCIAL SUPPORT FOR PROJECTS COULD BE OF DIRECT
INTEREST TO US BY ENABLING US TO MOVE FORWARD MORE
RAPIDLY THAN OTHERWISE. IF WE DECIDE TO EXPLORE THIS
FURTHER, WE WILL HAVE TO CONSIDER HOW BEST TO RELATE
ANY INITIATIVE WE MIGHT DEVELOP TO THE IEI PROPOSAL.

7. I WOULD APPRECIATE ANY PRELIMINARY REACTION YOU
MIGHT HAVE ON THESE TENTATIVE IDEAS. IN ANY CASE, I
LOOK FORWARD TO SEEING YOU NEXT WEEK IN PARIS. ROBINSON

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